

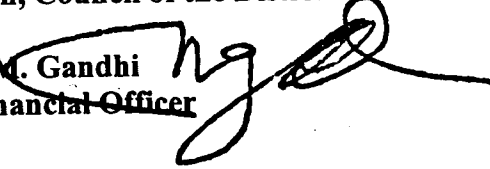
**Government of the District of Columbia
Office of the Chief Financial Officer**



Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: The Honorable Linda W. Cropp
Chairman, Council of the District of Columbia

FROM: Natwar M. Gandhi 
Chief Financial Officer

DATE: OCT 11 2005

SUBJECT: Fiscal Impact Statement: "Way to Work Amendment Act of 2005"

REFERENCE: Bill Number 16-286 with Proposed Amendments

Conclusion

Funds are not sufficient in the FY 2006 through FY 2009 budget and financial plan to implement the proposed legislation. There would be a potential increase of \$1.3 million in FY 2006 expenditures and a total of \$9.2 million for the FY 2006 through FY 2009 period in District wage and contract costs.

The proposed legislation establishes a requirement for a living wage in the District; creates a Job Opportunity Bank for low-income District residents; and expands coverage of the District's First Source Employment Agreement Program. The expressed goal of the legislation is to link unemployed and underemployed District residents with employment opportunities where increased wages and job training opportunities exist.

Title I - Living Wage:

Background

The proposed title would require all recipients of District contracts, grants, loans, Industrial Revenue Bonds (IRB), tax abatements and Tax Increment Financing (TIF) agreements in the amount of \$100,000 or more in a 12-month period to pay their employees a living wage. The living wage is defined as \$11.25 per hour regardless of whether health care benefits are provided. The requirement would also apply to subcontractors who receive \$15,000 or more in government funding in a 12 month period, and to the District of Columbia Government. In addition, the bill would require subcontractor recipients of financial and economic assistance other than contracts,

e.g., grants, loans, IRBs, or TIF agreements, who receive \$50,000 or more in any 12 month period to pay their on-site employees the living wage.

The proposed title would not apply the requirement to any provider agreements between the Medical Assistance Administration, Department of Health and any entity or individual providing medical services to D.C. Medicaid recipients. It also would not apply to:

- Contracts or agreements subject to Federal wage level determinations;
- Wages established by existing collective bargaining agreements;
- Part-time employees who work less than 25 hours per week;
- Non-profit organizations with 50 or less employees;
- Tenants or retail employees of enterprises that did not receive direct assistance from the District;
- Contracts for services delivered by regulated public utilities, e.g., telephone, electricity, water, sewer, etc;
- Contracts for services needed to respond to disasters or public health and safety threats; and
- Contracts to provide case management and job readiness services to trainees.

The proposed title would require the Mayor to adjust the living wage rate every two years to reflect increases in the cost of living. Enforcement of the living wage requirement would be accomplished by the filing of a complaint with the Contracting Officer as provided in the D.C. Procurement Practices Act.¹

Financial Plan Impact

District of Columbia Government: An analysis of District Government pay rates indicates that the living wage requirement would apply to about 860 employees, primarily in the District of Columbia Public Schools (DCPS). This is because most employees are already above the living wage rate, and others who would qualify are either in existing collective bargaining agreements or work part-time less than 25 hours per week. The cost of increasing the wages of these employees to \$11.25 is estimated to be \$800,000 in FY 2006 (beginning March 1, 2006) and a total of \$6.0 million for the FY 2006 through FY 2009 period. When the existing collective bargaining agreements are re-negotiated in the future, there would likely be some out-year costs resulting from bringing wage rates closer to or up to the living wage rate.

There also may be some public charter school employees who would be affected by the legislation. However, data is not currently available to estimate the potential cost impact for this group.

¹ D.C. Official Code §§ 32-1301 through 1310.

Contract Costs: Unlike States or other cities, the District Government is required to comply with Federal wage determination laws in all contracts for services as well as for construction of public works and buildings. The two primary federal statutes are the Federal Service Contract Act² which applies federally-determined prevailing wage rates to service contracts, and the Davis-Bacon Act³ which applies similar rates to construction contracts. In both cases, the federally established wage rates exceed the living wage rate in the proposed legislation.

In FY 2005 the District government entered into an estimated \$1.6 billion in contracts, which could be expected to generate about \$460 million in wages. Assuming the wage structures of these contracts are reflective of the DC economy as a whole, about 5.5 percent of these wages (\$25 million) would go to persons earning less than the living wage requirements. In the absence of more exact data, it is assumed that the increase in wages for this group would be about 32 percent. This results in an estimated potential maximum impact of \$8.1 million.

However, the impact is likely to be considerably less due to the exclusions noted above, e.g., Medicaid contracts, part-time work, small non-profits, and because most of the District's contracts already come under Federal contracting rules which impose a minimum wage rate higher than the proposed \$11.25 standard. We estimate that most contracts would be subject to Federal wage rate determinations or would otherwise be excluded by the legislation. Assuming ten to twelve percent would not, the potential cost impact could be approximately \$900,000 in increased contracting costs.

With respect to projects funded with economic development assistance through TIFs, IRBs, tax abatements and other incentives, the bill would require recipients of such assistance to pay workers on these projects the living wage rate. This could cause some developers to decide not to participate in these projects, but is not likely to decrease the competition for DC economic development funds by any significant measure. Generally, economic development subsidy amounts are determined by construction and financing costs, or the subsidy is negotiated. It is the District's practice to require economic development projects receiving District assistance to comply with Davis-Bacon wage requirements. The overall fiscal impact would likely be minimal due to the competitive nature and scale of these types of projects, and to the fact that most projects are required to pay Davis-Bacon wage rates.

Impact on health and social services: Health and social services are provided through contracts, grants and provider agreements. The legislation exempts all provider agreements providing health services to Medicaid recipients. In addition, the legislation exempts non-profit organizations with 50 or fewer employees from the living wage requirement. Many social services are provided by small non-profit entities which would be exempt. However, there may be some impact on the budgets of some of the larger non-profit organizations providing services. Some non-profit organizations that would not be exempt indicate a potential cost impact in the

² 41 USC § 351.

³ 40 USC § 3142.

range of two to four percent of their annual contract amounts. In the absence of more in-depth surveys of agency-specific data, exact potential costs cannot be determined.

Studies of cities adopting living wage laws generally have concluded that the costs of living wage laws are modest, varying in ranges of less than one percent to two or three percent. With federal requirements already governing most District contracts and grants and with the exclusions and dollar thresholds specified in the legislation, the bill is not likely to result in significant increases in contract or economic development costs.

Estimated Impact to the Financial Plan (S in Millions)					
Item	FY 2006	FY 2007	FY 2008	FY 2009	4 - Year Total
PS Costs ⁴	\$0.8	\$1.7	\$1.7	\$1.8	\$6.0
Contract Costs ⁵	0.5	0.9	0.9	0.9	3.2
Net Annual Impact	\$1.3	\$2.6	\$2.6	\$2.7	\$9.2

Title II - Job Opportunity Bank:

Background

The proposed title would establish a Job Opportunity Bank under the general policy guidance and direction of the Workforce Investment Council (WIC). The Bank would be the source of grants and other forms of financial assistance to increase job opportunities and job skills for low-income District residents.

District businesses, business coalitions and non-profits partnered with businesses could receive grants targeted to training skills-deficient District residents with priority given to youths between 18 and 21 years of age, TANF recipients, dislocated workers, veterans, ex-offenders and District residents needing basic skills or bridge-the-gap type training.

The Job Opportunity Bank would be funded by annual appropriations. The funds would be administered by the Deputy Mayor for Planning and Economic Development. Subject to the availability of funds, the Deputy Mayor would be responsible for funding applications for grants or other assistance approved by the Director of the Department of Employment Services.

Financial Plan Impact

Funding levels would be determined through the annual appropriations process.

⁴ Effective date of March 1, 2006

⁵ Adjusted for partial year implementation

Title III - First Source Agreement Amendment

Background

The proposed title would apply the District's First Source Agreement Amendment Act⁶ to all recipients of District contract and federal grant assistance from any District agency. In addition, it would extend the First Source requirement to:

- various types of District economic development assistance, including Industrial Revenue Bonds, contracts, grants, loans, tax abatements, TIF agreements and land transfers for public redevelopment that results in a financial benefit of \$100,000 or more from District funds;
- institutions which serve as a repository for \$1 million or more of District Government funds; and
- commercial tenants of real estate resulting from a government-assisted project for a period of five years from the tenant's initial lease.

The proposed title also authorizes the Mayor to negotiate increased hiring percentages in certain job categories.

Financial Plan Impact

There is no direct cost to the District's budget and financial plan resulting from Title III.

⁶ D.C. Official Code § 1-219.01 *et sequitor*.